Agricultural Support in Switzerland

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AGRICULTURAL SUPPORT IN SWITZERLAND - AN EXAMPLE OF THE MECHANICS OF CONTROL

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In Switzerland, the policy of protecting, supporting, and promoting agriculture has been carried farther than in any West European country. This is due partly to the unfavorable natural conditions under which Swiss farmers operate, and partly to the desire, widely shared by the Swiss people, to halt the decline in farm population and to secure a high degree of self-sufficiency in view of possible emergencies which might render difficult or impossible access to foreign sources of supply.

The "Law on Agriculture," passed in 1951, embodies the main principles of Swiss agricultural policy. 1/ It purports to maintain a healthy farm community; to ensure that output covers an optimum proportion of food requirements; and to adjust agricultural production to the pattern of domestic demand and to the exigencies of foreign trade with due regard for the needs of other sectors of the economy. The present proportion of farm to total population is to be maintained by guaranteeing farmers an income at least equal to that of skilled workers in industry, and equilibrium is to be achieved between crop and livestock production; without government intervention the former tends to be smaller and the latter larger than desirable.

Within the framework of the "Law on Agriculture" a variety of provisions scattered over earlier farm acts as well as new ordinances containing many specific marketing rules have been codified. 2/ They empower the government to pay subsidies, to fix prices, and to intervene directly or indirectly in the markets by other means. They confer upon the government also the power of imposing acreage and production quotas, but recourse to such measures has not been taken in recent years. However, foreign trade in agricultural products is to the largest extent subject to strict quantitative controls.

In the execution of its policy, the government makes use of private organizations, that is, associations of private traders or producers, such as the "Swiss Cooperative Society for Feeds and Grains," the "Central Union of Swiss Milk Producers," or the "Swiss

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1/ See "Switzerland's Basic Agricultural Law" by Janet Stanton, Foreign Agriculture, Vol. XVI, No. 11, 1952.
2/ For example, the "Grain Statute," the "Milk Statute," and the "Meat Statute."

Cheese Union." Private business, by being frequently made its principal instrument, becomes thus allied instead of opposed to official regimentation.

The following describes the main aspects of the methods of agricultural support as they affect Switzerland's principal agricultural commodities.

Grains

In recent years (1953 and 1954), domestic production has covered about 50 percent of bread grain, and about 24 percent of feed grain consumption. The Swiss Government encourages the cultivation of grains in order to strike a balance between grassland and cropland farming. In peacetime, it does not enforce acreage controls, but it "guides" farmers by indicating the desired acreage and influences them by monetary inducements. The methods employed in promoting policy aims differ in the case of bread grains from those used in the case of feed grains.

Bread Grains: The price of bread grains is fixed for several years ahead, primarily on the basis of prospective costs of production. It therefore tends to remain rather stable. Thus, during the 3-year period 1952-54, the price of type I wheat amounted to SF64.50 per 100 kilograms ($4.00 per bushel), in spite of slight variations in the costs of inputs.

The Federal Grain Administration which purchases all the grain at the predetermined price resells it at a much lower price to commercial mills. This price is in line with the prices of flour and flour products which are also fixed by the government. The maximum price paid to producers must never exceed double the price at which the Federal Grain Administration sells to millers. For instance, during the 1954-55 crop year, producers received, on average, about SF66.00 for 100 kilograms of bread grains ($4.16 per bushel), which the government sold to mills for about SF38.00 ($2.40 per bushel). The difference of SF28.00 represented thus a subsidy of almost 75 percent calculated on the price paid by mills.

That part of the farmers' bread grain output which is not marketed but consumed on the farm receives a special subsidy contributing to the costs of milling, of transport and of bread making. This subsidy amounted in 1955 to between SF10.00-22.00 per 100 kilograms ($0.63-$1.39 per bushel of wheat), depending on the location of the farm. Mountain farmers receive extra payments for their commercial as well as for their self-consumed products.

The Federal Grain Administration has the exclusive right to authorize the purchase of bread grains from abroad. It issues import licenses to Swiss grain merchants on the basis of competitive bidding and distributes the imported grains through the intermediary of private

firms (mostly the importing firms themselves) against a remuneration for their services.

Millers are not free to decide on the type of bread grains they buy, the proportion of domestic and foreign grain in their total purchases being determined by the Federal Grain Administration. Millers, moreover, are obliged to keep their stocks at any time at a certain officially set level. They are indemnified for the maintenance of these obligatory stocks, but penalized for failure to do so.

Feed Grains: Prices of feed grains are not fixed, but if costs exceed the prices of imported grains, which is practically always the case, farmers receive premia proportionate to their acreage under oats, barley, corn, and some other minor crops. These premia are intended to influence the extent of the acreage sown. They consist of a basic payment which may not exceed SF250.00 per hectare ($23.61 per acre) and of supplements. In recent years, these premia have amounted to SF200.00 per hectare ($18.89 per acre) of land under oats, barley, and corn, plus a supplement of SF80.00 ($18.66) in Alpine regions. Thus, in the case of oats with an average price of SF44.18 per 100 kilograms ($1.49 per bushel) in 1954, gross proceeds per hectare included a subsidy of at least 15 percent. (Import prices of oats averaged SF26.00 per 100 kilograms /$0.88 per bushel/ in 1954.)

Each year, before the beginning of spring seeding, the government indicates the acreage it desires to see under feed grains and announces the premia it is willing to pay. If individual farmers do not heed its recommendations, or if, in spite of compliance with acreage recommendations, the state of the crops (e.g. their yields) appears unsatisfactory to the authorities in consequence of negligence on the part of the farmers, the basic premia may be reduced.

The Swiss Cooperative Society for Feeds and Grains is the sole importer of feed grains. On the basis of import quotas established by the government, it allocates import authorizations among its individual members, buys from them the imported grain, and resells it to grain merchants in the country. In exceptional cases it may buy directly from abroad. The Society, when reselling imported feed grains, adds a supplement to the purchase costs in order to equalize foreign and domestic prices. The funds derived from these supplements represent one of the sources for the payment of acreage premia.

Import quotas are fixed in consideration of the number of livestock relative to domestic feed supplies, and particularly of market conditions for livestock, meat and dairy products. The control of feed supplies thus helps to regulate the livestock and dairy economy of the country.

Potatoes

Potato growing, which takes up about 20 percent of the area under crops, is encouraged because it forms an integral part of the crop rotation system. Switzerland is practically self-sufficient in potatoes. Yet the anomalies in potato supplies, which cause shortages and surpluses to occur rather regularly within one growing season, require an extensive system of control. The price of potatoes is fixed each year by the Federal Alcohol Monopoly Administration. In April-May, before the arrival of the new harvest, when domestic supplies are low, the Federal Alcohol Monopoly Administration issues import permits to private traders. Later on, when difficulties in the disposal of the domestic crop arise, it subsidizes exports, makes the imports of other feeds subject to the purchase of additional surplus potatoes, and subsidizes also the sale of edible potatoes and other potato products to be used for feed. If all these measures fail to dispose of surpluses, the Federal Alcohol Monopoly Administration may buy potatoes for distilling. That, however, has not happened since 1922.

The importance of these subsidies may be roughly gauged from the fact that the total support payments of the Federal Alcohol Monopoly Administration in 1952-53 represented about 14 percent of the gross proceeds obtained by producers for the sale of potatoes.

Sugar Beets

Sugar beets cover only a small part (over 14,000 acres) of the total crop area, the output of which corresponds to the processing capacity of the only Swiss sugar refinery. Sugar beet production covers not more than 15 percent of domestic requirements, but it is supported by the government because it forms, like potato growing, an essential part of good rotation practice in certain areas. Prices of sugar beets are fixed annually by the government, and the production of sugar obtained from domestically grown beets is also subsidized. Imports of refined sugar are subject to import authorizations.

Fruit and Vegetables

Since the supply of fruit and vegetables displays great seasonal and annual fluctuations, due to natural causes, the government attempts to stabilize the markets for these crops. It fixes minimum prices for cider fruit and supports so-called "indicative prices" of other products, agreed upon by marketing boards, at various fruit and vegetable exchanges. In addition to subsidies and marketing regulations, the government pursues its policy primarily with the help of import regulations, patterned after the so-called "three phase system." This entails permitting or restricting imports according to the domestic supply situation. Thus, in the first phase, coinciding with the

off-season in this line of production, imports are admitted freely. In the second phase, coinciding with the beginning and the end of domestic marketing, imports are limited, and in the third phase, coinciding with domestic marketing peaks, imports are totally embargoed. 1/ In the case of fruits, the Federal Alcohol Monopoly Administration has to purchase, at fixed prices, supplies that cannot be otherwise disposed of. Excess fruit supplies may also be sold abroad with the help of governmental subsidies.

Dairy Products

About 35 percent of total farm income is derived from dairying, which is also the only branch of Swiss agriculture yielding export surpluses of any significance. The policy of stimulating field crop production in order to divert grassland from the dairy industry and thus to prevent burdensome surpluses is not sufficient to maintain equilibrium; stable conditions in this industry can only be created through an elaborate system of regulations and regimentation.

Milk: Milk producers are not permitted to sell milk directly to consumers, but have to deliver it to collection or processing centers which are bound to accept the milk offered, unless its quality is objectionable. Retailing of milk is subject to governmental authorization, and the government may also regulate retailers' profit margins. The processing of milk on farms may only serve family needs and is not to be exploited commercially. The "Central Union of Swiss Milk Producers" is responsible for providing the country with milk and for supervising the orderly marketing of milk according to official instructions.

Producer prices of fresh milk are periodically fixed by the government. (In 1954, they averaged about 40 centimes per liter of milk /$0.09 per quart of milk/. At the same time, taxes are levied on producers for fresh milk and cream. These taxes flow into the "Compensation Fund for Milk and Dairy Products," which uses them to keep the price of consumer's milk low by subsidizing distribution costs and thereby equalizing milk prices in various urban centers. (The retail price of whole milk in 34 cities amounted to 52 centimes per liter /$0.12 per quart of milk/ in 1954). The deficits of the compensation fund are covered by the Federal Treasury.

1/ The "three phase system" is applied, of course, to each commodity or commodity group individually.

Butter: Switzerland is not self-sufficient in butter and has always to rely on some imports. Nevertheless surpluses of butter arise frequently--one of the paradoxical results of the support program. Since processing and collecting centers are bound to purchase all the milk offered, surpluses of milk tend to become surpluses of butter. Butter surpluses, however, would depress producer prices below costs of production, as determined by the fixed price for milk. Producer prices of butter are therefore also fixed. But, since at the ensuing consumer prices, demand would fall short of supply, retail prices have to be subsidized, too. If domestic surpluses nevertheless emerge, as is frequently the case, the government stands ready to absorb them.

To keep the supply of butter in balance, the government diverts milk from butter production by favoring that of cheese and canned milk; by obliging importers of dried milk and lactic casein to purchase a certain proportionate amount of domestic products whenever they buy abroad; and by levying taxes on imported fats and oils which might serve as substitutes for butter.

The government-controlled butter monopoly "Butyra" has the exclusive right to import butter. These imports are sold at a profit in the domestic market. The proceeds are used to subsidize consumer prices of butter and to finance the acquisition of domestic surplus butter.

During 1954-55, the average cost of imported butter amounted to SF5.04 per kilogram ($0.57 per lb.). Producers' costs of first-class domestic butter amounted to SF9.69 to SF9.32 ($1.02 to $0.92 per pound), and retail prices (including federal subsidies) amounted to SF10.60 to SF10.10 per kilogram ($1.12 to $1.07 per pound). Although the price difference between foreign and domestic butter enabled "Butyra" to make considerable profits on the sale of imported butter, its expenditures for subsidies and for the acquisition of domestic surpluses led to heavy losses which had to be covered by the Federal Treasury.

Cheese: The marketing of soft cheese is free of governmental regulation; that of hard cheese is regulated by the Swiss Cheese Union under the guidance of very broad governmental directives. The Central Union of Swiss Milk Producers by virtue of its control of collection and processing centers influences the allocation of milk to different uses according to the market potential for different milk products. Production of hard cheese is thus given priority over that of butter. The Central Union (of which the Cheese Union

is a member) fixes the producer prices for hard cheese. The wholesale, consumer, and export prices of hard cheese are fixed by the Cheese Union, the two latter being subject to the approval of the Federal Office of Price Control. Imports of hard cheese--that is to say, of types not produced in Switzerland--are uncontrolled. Exports of hard cheese depend directly on government permission, subject, however, to the Cheese Union's certification of quality standards. This feature of the export permit procedure led to the allegation of monopolistic practices on the part of the Cheese Union which are said to hamper rather than to promote exports.

Eggs

The government endeavors to keep the production of eggs below domestic requirements in order to allow for imports from countries to which it is interested in promoting exports. (In 1953, imports represented about 30 percent of domestic consumption). Therefore, the establishment of new chicken farms above a certain size and the enlargement of existing farms is subject to official authorization, and imports of eggs are uncontrolled. Nevertheless, egg producers are granted a certain measure of protection. If domestic egg supplies are in seasonal surplus, importers may be obliged to purchase at home in varying proportion to their foreign purchases. Imports of eggs are subject to a fee which is used to compensate importers for the collection and transportation costs incidental to compulsory domestic purchases. Wholesale prices of eggs are fixed.

Livestock and Meat

Governmental policy aims at limiting production to a level slightly below domestic demand. To this end, the government sets so-called "indicative prices" for the various categories and grades of livestock, which are to cover "normal" costs of production on rationally managed enterprises. These prices may fluctuate within upper and lower limits from year to year and during the season. In case of excess supplies, they may even fall below the lower limit indicated. They, therefore, do not represent necessarily full cost guarantees. However, in recent years prices have tended to remain near the upper limit, which appears to be one of the reasons why meat consumption is still below prewar levels.

Imports equivalent to 5-10 percent of domestic consumption may be allowed. They include products not produced domestically, but are also intended to maintain export outlets for countries importing from Switzerland. They may also be used, if necessary, to keep domestic prices from rising above the indicated maximum.

Import permits are issued by the "Cooperative Society for Livestock and Meat," which is instrumental in regulating the domestic market for these products. Import restrictions are imposed whenever domestic surpluses arise. In this case, importers may be required to buy domestic products in proportion to their average imports over a period of time. Excess production purchased in this way may be freely sold, or has to be put into cold storage or processed. The Cooperative Society for Livestock and Meat is bound to buy domestic surpluses not otherwise saleable. These purchases are financed by funds derived from levies assessed on importers in proportion to their average imports. If such measures prove insufficient to relieve the market, the government may step in and subsidize exports.

Other Support Measures

In addition to the commodities mentioned above, the government also supports wine, oil crops, and other agricultural commodities of lesser importance. It also finances agricultural training and extension work, subsidizes land improvements, and engages in many other activities in order to further the aims of the basic agricultural law.

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The policy of agricultural support has undoubtedly succeeded in increasing self-sufficiency to a higher degree than would otherwise have been possible. It has, however, also kept prices high, and hence prevented per capita consumption of such important foods as milk, butter, cheese, and meat from reaching prewar levels; and it has failed to stem the decline in farm population, which fell from 21 percent in 1921 to over 16 percent in 1950, and has continued to decline since then.

The broad principles embodied in the "Law on Agriculture" will dominate Swiss agricultural policy for a long time to come. The measures designed to put them into practice will, however, be tested by experience and accordingly changed, modified, and refined. It remains to be seen whether, and to what extent, they will succeed in achieving all the goals for which they are intended.